Financial Markets

Irving Trust

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Economic Research &
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Friday
(Noon)

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Money markets rapidly assumed a more optimistic attitude this week, partly due to a growing perception of the magnitude of the economic slowdown, but also aided by the swift easing of pressure on the Federal funds market after the weekend. Prior to the weekend, funds traded in a 16%-17% range, reflecting anxieties about the start-up of same-day settlement of CHIPS transactions. Though the Fed almost certainly perceived a need to drain reserves, it apparently deferred the job until after the weekend so as not to compound the market's tension. The result was that the funds rate started softening on Monday, and repeated reserve draining by the Fed could not prevent its plunge to the 12% area by Wednesday. Though the drop was generally perceived to be merely a technical aberration, it nevertheless aided the rally in the short-term and long-term markets.

Adding interest to the week was yet another exchange between the Treasury and the Fed. Secretary Regan stated fairly explicitly the Treasury's desire to see interest rates decline sooner rather than later. Chairman Volcker reaffirmed earlier statements cautioning against precipitate actions that might undermine public confidence in the Fed's resolve to persist in a restrictive policy. The incident was reminiscent of a similar exchange in March of this year involving Under Secretary Sprinkel. Then, the Fed properly shrugged off the Treasury's advice--and it is likely to do so this time as well.

Though it is impossible, at this stage, to discern whether the FOMC eased its policy stance at the Tuesday meeting, there are several tentative signs that the Fed may have decided to pause and assess the impact of the rate declines already achieved before proceeding to further stimulus. Thus the immediate outlook is for the funds rate to hold at its current level, possibly moving to above 15%. Later on, further declines, accompanied by a reduction in the basic discount rate, seem likely.

By sheer coincidence, the Tuesday FOMC meeting was the second anniversary of the "Saturday Night Special," which moved the Fed's operating target from the funds rate to the current system of reserves targets. Undoubtedly, the anniversary provided an occasion for reflection on how difficult reserves targeting can be in the presence of uncertainty concerning the proper measure of the transactions-oriented money stock. The principal problem, of course, is the absence of money market mutual fund shares--which are generally checkable--from the M-1B aggregate. Since the money funds have grown rapidly this year, inclusion of only a small portion of them in M-1B would raise substantially the growth of that aggregate. As the Fed looks ahead to next year, it may well ponder whether the tentative 2 1/2%-5 1/2% growth objective for M-1B--which seems so restrictive in terms of historical velocity growth--is in need of downward adjustment.

William C. Melton

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Market Yields

	10/9/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	19.00%	19.50%	13.50%
Effective since	10/5/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	14.75	17.25	12.88
Repurchase Agreements	14.25	16.25	12.25
U.S. Treasury Issues			
Bills			
3 months	14.14	15.26	11.55
6 months	14.96	16.10	11.88
1 year	15.24	16.45	11.95
Coupons			
2 years	15.48	16.40	11.60
4 years	15.20	16.05	11.55
7 years	15.06	15.85	11.47
10 years	14.73	15.55	11.40
Long Bond	14.26	14.95	11.20
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.75	16.65	12.40
3 months	15.35	17.00	12.50
6 months	15.70	17.10	12.50
1 year	15.50	16.75	12.50
Banker's Acceptances			
1 month	14.85	16.50	12.50
3 months	15.36	16.55	12.50
6 months	15.79	17.00	12.55
Eurodollar Deposits			
1 month	15.33	16.88	12.88
2 months	15.81	17.19	12.88
3 months	16.25	17.75	12.94
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	14.38	16.25	12.00
1 month	14.63	15.50	12.00
3 months	14.50	14.75	11.25
Bank Holding Companies			
1 month	14.50	15.13	12.50
Dealer Placed:			
3 months	14.50	15.25	12.25
New AA Corporate Utility Bond	17.50	18.25	13.25
Tax Exempt			
6 month Project Notes	8.85	9.15	5.20
1 year AAA Bond	8.90	9.00	6.00
5 year AAA Bond	9.25	9.55	6.30
20 year AAA Bond	11.50	11.75	8.20

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

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